

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
 IDAHO POWER FOR AN ACCOUNTING ORDER)
 REGARDING TREATMENT OF CERTAIN ASSET)
 RETIREMENT OBLIGATIONS.)**

CASE NO. IPC-E-03-11**ORDER NO. 29414**

On September 26, 2003, Idaho Power Company (Idaho Power; Company) filed an Application seeking an accounting Order authorizing the Company to record regulatory assets or liabilities associated with implementation of Statement of Financial Accounting Standards (SFAS) 143. Idaho Power's Application asked for an Order authorizing the Company to record, as a regulatory asset or a regulatory liability, (1) the cumulative financial statement impact resulting from the Company's implementation of SFAS 143, and (2) on an ongoing basis, an amount equal to the difference between the annual SFAS 143 depreciation and accretion expenses and the annual depreciation expenses based on Commission approved depreciation rates and coal mine reclamation accruals. Idaho Power also requested confirmation by the Commission that (1) asset removal costs, in the form of negative net salvage, are currently accrued through annual depreciation expense that is recoverable in rates; (2) these costs are based on estimates of the final removal costs; and (3) such costs are trued-up for ratemaking purposes at the time the related assets are retired and the actual removal costs are determined. On December 3, 2003, the Commission issued a Notice of Application and Notice of Modified Procedure to process Idaho Power's Application. In response to the Commission's Notice, written comments were filed only by the Commission Staff.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, Accounting for Asset Retirement Obligations, effective for fiscal years beginning after June 15, 2002. Idaho Power began implementing SFAS 143 in its 2003 fiscal year (January 1, 2003 through December 31, 2003). The FASB issued SFAS 143 to address inconsistencies in accounting practices for asset retirement obligations. FASB noted that obligations that meet the definition of a liability were not being recognized when incurred or the recognized liability was not consistently measured or presented. Idaho Power is required to implement SFAS 143 in order to comply with Generally Accepted Accounting Principles.

As noted in Idaho Power's Application, SFAS 143 requires entities to recognize and account for certain asset retirement obligations differently than Idaho Power has traditionally recognized and accounted for such costs. Specifically, if a legally enforceable asset retirement obligation (ARO) as defined by SFAS 143¹ is deemed to exist, an entity must measure and separately account and report the liability for the ARO (ARO Liability) on its books. Under the accounting method used by Idaho Power before SFAS 143, the reasonable cost of removing a tangible long-lived asset at retirement is included in the calculation of depreciation rates and is recovered over the useful life of the asset and, as a depreciation expense, is included in the Company's revenue requirement. Thus, SFAS 143 recognizes the entire cost of removal upfront while in ratemaking the cost of removal is included in depreciation expense over the life of the asset. In its Application, Idaho Power did not request any changes to its currently approved depreciation rates or any change in the level of asset removal included in the Company's revenue requirement through depreciation expense.

Under SFAS 143, at the same time the ARO Liability is recorded, a corresponding and equivalent Asset is also recorded on the entity's books as part of the cost of the associated tangible asset. The ARO Asset is then depreciated over the life of the associated tangible asset. In addition, a period-to-period increase in the carrying amount of the liability (accretion expense) is added to the ARO Liability annually to account for the time value of money, so that at the time of retirement the recorded ARO Liability will be sufficient to meet the legal obligation. Any gain or loss when the actual liability is paid in the future will be recognized in the Company's accounting records.

SFAS 143 applies to rate-regulated entities that meet the criteria for application of FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. SFAS 143 recognizes that differences may exist between its requirements and the treatment of AROs for regulatory purposes. SFAS 143 provides that a regulated entity subject to SFAS 71 recognize differences between the two approaches as a regulatory asset or a regulatory liability.

¹ According to SFAS 143, "it applies to legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and (or) the normal operation of a long-lived asset, except...for certain obligations of lessees. As used in this Statement, a legal obligation is an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel."

Idaho Power has determined that it will need to record AROs under SFAS 143 for certain generation assets. The Company has also identified AROs for transmission and distribution assets. The timing of those obligations is indeterminate, however, and the liability cannot be measured and recorded at this time, according to Idaho Power's Application. Idaho Power stated that there are no material AROs related to general plant assets.

SUMMARY

SFAS 143 requires entities to separately account and report the liability for asset retirement obligations, capitalize the asset retirement costs, and charge earnings for the depreciation of the asset and the accretion of the liability. Pursuant to SFAS 71, a public utility is permitted to record a regulatory asset or regulatory liability for differences between SFAS 143 and regulatory accounting for asset retirement obligations rather than recording such differences as a charge or credit to income. Idaho Power's proposed accounting treatment will use SFAS 143 for reporting on its financial statements but retain its current methodology for ratemaking purposes. As a result, there should be no rate change, now or in the future, associated with the application of the requested accounting treatment.

The Commission approves Idaho Power's Application to record, as a regulatory asset or liability, the cumulative financial statement impact resulting from the implementation of SFAS 143, and the ongoing annual differences between the SFAS 143 depreciation and accretion expenses and the annual depreciation expenses that are currently authorized by the Commission in depreciation rates and reclamation accruals. The Commission also requires Idaho Power to file annually and as part of any rate case filing all journal entries made under the requirements of SFAS 143, including documents supporting the determination of regulatory assets and liabilities and related dollar amounts and maintain these financial records in a manner similar to the long-lived assets to which they relate.

ORDER


IT IS HEREBY ORDERED that Idaho Power's Application to record regulatory assets or liabilities consistent with Statement of Financial Accounting Standards 143 is approved. Idaho Power is directed to file annually and as part of any rate case all journal entries made under the requirements of SFAS 143, including documents supporting the determination of regulatory assets and liabilities and their amounts and maintain these financial records in a manner similar to the long-lived assets to which they relate.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-03-11 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-03-11. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

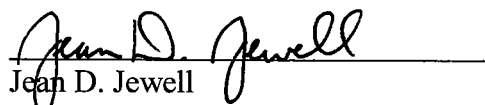
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 8th day of January 2004.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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